

**MEMORANDUM FOR CORRESPONDENTS**

No. O56-M

March 18, 1994

On the second day of his trip to the states of the former Soviet Union, Secretary of Defense William Perry met with Russian Prime Minister Viktor Cheromyrdin, First Deputy Andrey Kokoshin and Chief of the General Staff Mikhail Kolesnikov to discuss defense conversion. Prior to departing Moscow for Almaty, Kazakhstan, Secretary Perry and First Deputy Kokoshin signed an amendment to the Defense Conversion Nunn-Lugar Implementing Agreement that allows for an additional \$20 million in defense conversion assistance. Attached is a statement on the signing ceremony and additional background on defense conversion in Russia. Direct questions concerning this issue to Major Bob Potter, (703) 697-5131.

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**Statement for Signing Ceremony for the Amendment to the  
Defense Conversion Nunn-Lugar Implementing Agreement**

**March 18, 1994**

U.S. Secretary of Defense William J. Perry and Russian First Deputy Minister of Defense Andrey Kokoshin and First Deputy Minister of Economy Valeriy Mikhailov today signed an amendment to the December 1993 Nunn-Lugar implementing agreement providing for additional U.S. assistance for defense conversion. The agreement signed today allows for an additional \$20 million in assistance to help form business partnerships between American business firms and Russian defense firms that are privatizing. U.S. companies will be invited to team up with Russian defense firms that in the past produced weapons of mass destruction to help them restructure their plants, change their product lines to help them restructure their plants, change their product lines to non-defense products, and learn about commercial enterprise.

## DEFENSE CONVERSION PROJECTS FUNDED BY THE UNITED STATES

### WHO'S ELIGIBLE?

American or Western companies teaming with Defense Industries that are converting to civilian production, or demobilized military personnel in the Republics of Russia, Belarus, Ukraine and Kazakhstan.

### WHO PAYS?

The United States Government with an annual budget of about \$60 million for all four republics.

### WHAT HAPPENS?

Contracts, grants or loans are given to American or Western companies to start-up partnerships with the Former Soviet Defense industries that are converting to non-defense production. The amounts are normally between \$1-5 million total.

The American and Former Soviet companies create a business arrangement, such as a joint venture, which will endure after the contract, grant or loan ends.

The Americans are expected to invest their own resources, both in the beginning and for many years after the American Government money ends. They are also expected to transfer technology and business knowledge.

The Former Soviet industry is expected to invest its own resources such as talent, equipment, facilities, patents, money or land. They are expected to transfer technology and business knowledge as well.

Together, they should create a commercial product or service which they can sell in the Former Soviet Union or the West.

Together, as private companies they should form a lasting partnership, working in the commercial field as a private enterprise. The United States helps pay for the start-up, everything after that is up to the skill of the companies.

### HOW DOES IT WORK?

### Contracted Efforts leading to partnerships

This may include some or all of these steps:

Step 1. The United States Government and your Government agree on the companies participating from your country.

Step 2. An American team meets with you to explain the process and learn more about your company so it can attract partners.

Step 3. The American Government pays for you to come to America for a week to meet with business leaders to arrange deals.

Step 4. Americans or Westerners come to your company to learn more and negotiate a deal. You are working independently to negotiate as many good deals as you can.

Step 5. The Americans or Westerners turn in proposals to the US Government, asking for a contract to start-up this partnership.

Step 6. The proposals are reviewed, and the best ones are awarded contracts. Work begins about six months after step 1.

### Grants or Loans from the Defense Enterprise Fund

The Defense Enterprise Fund is being established with first awards expected in late summer of 1994.

Like a venture capital fund, it will be chartered to issue loans, make grants, take equity shares and other financial options to help conversion. The fund will only do business in Russia, Belarus, Ukraine, and Kazakhstan.

Small projects are encouraged as well. For example, a new small company created out of a large Defense Company is welcome to apply. Also, demobilized military personnel trying to create their own companies are encouraged to apply.

### Resident Advisor Program

Retired American business executives have volunteered to work in your country to advise on defense conversion. Many of these experts led their companies through conversion projects, and they are experts in the technical field you work in.

They are available to advise on the conversion process, how to seek funds from banks, how to improve marketing, and other areas. They work with

individual companies, or with larger organizations such as an industry group or regional council.

**If you are interested in participating in these programs or need more information, contact the Commercial Officer or Defense Attache at the American Embassy or Consulate.**

## Questions and Answers on Defense Conversion

1. How much money has the U.S. committed for defense conversion in Russia and how is this money being used?

Answer: The US has committed a total of \$40 million. Of this, \$20 million in FY1993 funds will be used to convert defense industries to produce housing for officers demobilized from the strategic forces. \$20 million in FY 1994 funds will be used to support joint business initiatives between U.S. firms and privatizing Russian defense firms that are converting to the production of civilian products.

2. Which Russian defense firms are involved in the defense industry conversion project?

Ans. Four Russian firms have been identified as potential candidates for defense industry conversion joint initiatives with U.S. businesses. Three of these firms -- Scientific Production Organization Mashinostroyeniya, the State Scientific Research Institute of Aviation Systems, and the Istok Electronics Plant -- are in Moscow area. The fourth, the Leninets Concern, is located in St. Petersburg. Additional defense firms will be involved in the next stage of cooperation.

3. What have you done to engage U.S. businesses to develop joint business initiatives with these firms?

Ans. The Department of Defense sent a technical team to Moscow and St. Petersburg in late January and early February to help arrange contacts between U.S. firms and the four Russian enterprises. On March 8 we formally issued a Request for Proposals from U.S. industry. We are holding a Proposal Conference in Washington on 22 March to allow officials of the four Russian firms to meet with interested U.S. industries. We plan to hold similar conferences in Moscow and St. Petersburg in April that will allow for further talks and tours of facilities by officials of U.S. firms. We are hopeful that these contacts will result in a number of proposals for joint business initiatives involving defense conversion. We expect that the U.S. Government will provide projects with grants of \$1-5 million. The U.S. and Russian partners also will be expected to make investments in the projects.

4. What type of defense firms are you trying to convert?

**Ans.** The primary focus of our defense conversion assistance is on firms associated with the production of weapons of mass destruction or their delivery systems.

5. Why are we providing funds for such projects?

**Ans.** The conversion of firms associated with weapons of mass destruction enhances United States security interests by reducing production capabilities for systems that threaten our country the most. It also promotes democratic reform and social stability in Russia by supporting the orderly transition from a heavily militarized economy to one serving pressing social and civil needs.